

THE RHODESIAN JOURNAL

ECONOMICS

The Quarterly Journal of the Rhodesian Economic Society

Editorial Board:

A. M. Hawkins (Editor), M. S. Brooks, M. L. Rule, P. J. Stanbridge
and P. Staub.

INDUSTRY IN RHODESIA

A TWO-DAY SYMPOSIUM

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INDUSTRY IN RHODESIA

The Rhodesian Economic Society held a two-day Symposium on Rhodesian industrialisation on June 11 and 12. Approximately 100 people (including speakers) attended what was the most ambitious project ever undertaken by the Society in its 20-year life. The Symposium was self-financing thanks to the kind donations made by Anglo-American (Rhodesia) and Rothmans of Pall Mall (Rhodesia) Ltd.

Eleven papers were read during the two days and the (amended) papers delivered on the first day of the Symposium plus the subsequent discussions are published in this edition of the Journal. The second day's proceedings will be published in the September edition, and it is hoped to publish a survey of the Symposium analysing the main trends and conclusions in the December edition.

INTRODUCTION

Welcoming the participants, the President of the Rhodesian Economic Society, Mr. Arthur Hunt said that the Symposium was timely for four reasons. First, for the first time in 1968, manufacturing industry had moved ahead of other sectors in its contribution to Gross Domestic Product. Industry was going to continue to develop and would be one of the most important growth factors in the future.

Second, Rhodesia had been operating a closed economy for 3½ years and it was a good moment to look back and see what lessons could be learned from this experience.

Third, the need to transform the subsistence sector into part of the modern cash economy vitally involved the manufacturing sector. Finally, increasing interest was being shown in closer economic co-operation in Southern Africa which had very far-reaching implications for secondary industry in Rhodesia.

THE RHODESIAN JOURNAL OF ECONOMICS

PAPER No. 5

W. D. Mills

Formerly with the Ministry of Agriculture, Mr. Bill Mills is now Chief Economist to the Sabi-Limpopo Authority.

THE POSSIBLE EFFECTS OF RHODESIAN INDUSTRIAL GROWTH UPON AGRICULTURE

W. D. MILLS

(Chief Economist, Sabi-Limpopo Authority)

Introduction

This Symposium, I believe, is very relevant to present-day economic conditions in Rhodesia. Manufacturing as we know (and this is shown in Appendix I) is an extremely important contributor to Gross Domestic Product, its contribution in 1968 being 20%. Together with agriculture, which is equally important—although here I propose to gloss over the searing effects of the 1968 drought—these two sectors are responsible for the production of some 40% of the country's wealth. Mining and quarrying offered only 6%, although this excludes some beneficiation of minerals which has been included in the industrial sector.

Primary Industry

Looking at the economy from the broad view, it seems to me that the two primary industries of agriculture and mining are the foundations on which almost the entire superstructure of manufacturing, distribution and so on are erected. I accept that this may be an over-simplification, because quite clearly we are in a position now where we have industry manufacturing articles for consumption by industry, and for consumption by persons employed in industry, but I think it is a truism to say, nevertheless, that mining and agriculture constitute the base of the economy. This being so, it is interesting to examine the possibilities which exist for growth in these sectors in terms of total output and labour employed.

(a) Minerals.

Mining presently has a total output of approximately £35 million, and on the best authority available seems set to grow over the next five years to a total of between £50 million and £60 million. These figures could be increased possibly by another £5 million, if additional beneficiation in the way of ferro-chrome and pig iron were to be introduced. Beyond this, however, it is not possible to predict. In general I feel that increases in the value of mining output will be brought about largely by increased volume, rather than changes in world prices, and these increases in volume are likely to occur largely as the result of decisions relatively beyond the control of Government, so it seems that any planning for economic growth based on mining is not something which will be within the orbit of Government control, except in the broadest sense.

(b) Agriculture.

Turning to agriculture, total output in 1967 was approximately £99 million—and of this approximately £71 millions were available for sale, i.e. approximately double the total of mineral output.

I believe that this ratio can easily be maintained and over the next five to ten years we should see an increase in agricultural production, based on

known development plans and also on projected modifications to the institutional structure, such that agriculture by 1975/80 could have a total value of output approaching £150 million. Going further, I estimate that by 1990 the G.D.P. should be about £2,000 million at current prices, of which agriculture should contribute about £350 million, or 15%. This pre-supposes that industry, mining and the services sector will grow more rapidly in order to assume the dominant position in the economy.

If we leave aside the possible growth in agricultural acreage which will be generated by the development of the lowveld irrigation schemes, we could estimate that the European market sector of agriculture is likely to increase its cultivated area from its present level of about 1.4 million acres to just over 2 million acres by 1980, based on past growth rates. To this we can add whatever acreage will by then be under irrigation in the lowveld. We can roughly estimate this as being 200,000 acres, given the present sub-normal availability of capital for investment as applying in the next twelve years.

I show in Appendix II what the effect will be on world trade if Rhodesia's exports of a range of selected commodities expand to five times the present level. Apart from tobacco, which is subject to obvious market constraints, even in a free market, the other commodities (cotton, beef, maize, sugar and groundnuts) would all increase to levels which would be small in relation to total world trade. We must remember that it would take many years to achieve a five-fold increase, and by that time world trade would also have grown; so that the percentage shares from Rhodesian produce would probably be lower than demonstrated in the Appendix.

Naturally, the growth of the agricultural sector will be in the commodities which are presently proven as profitable, i.e. in maize, cotton, sugar, beef, coffee, tea and some wheat, apart from any recovery which we must hopefully expect for the tobacco industry. All of these commodities some ten years hence will be in excess of local demand and will require the freest possible access to world markets in order to maximise returns to the local producer.

Agriculture as a Consumer

I would like now to consider agriculture as a market for industrial products in the form of agricultural inputs, and as a supplier to industry of the raw materials needed for industrial output. In respect of the former, I would distinguish between inputs which are or can be manufactured locally, and those which, of necessity, are imported.

In regard to inputs, an analysis of the broad sectors indicates that most of the items which can be manufactured locally are in fact available in many cases at prices which approximate to landed cost. For instance, phosphatic and nitrogenous fertilisers are now made locally; most of African labourers' consumption requirements are of local origin; items such as irrigation piping and portions of electric motors, items such as the simpler implements, i.e. the tractor-mounted or tractor-drawn type, are all available from local sources at prices which are particularly competitive. With imports of these items, however, it is important to notice that the landed cost is in many cases inflated by virtue of protective tariffs designed to ensure that local industries secure a foothold in the market and are able to preserve, if not increase their share of local sales. It would be interesting to know the degree of cost inflation experienced by the agricultural industry as a result of local products being available at tariff-inflated import prices and the present adverse trading arrangements. With these local products it seems that the broad range of input require-

ments is now available and that there is little opportunity for an expansion of the range. Accordingly, growth in this sector of the industry will be conditioned by either replacement demand, modified techniques, different crops and an expanded acreage.

Looking at other inputs we see that these consist largely of more sophisticated items, such as tractors, combines, pumps, insecticides and other chemicals not available from local sources. With these items, either the scale of the local market is insufficient to allow their development at prices relatively close to import values, or alternatively (such as chemicals) the cost of research and the continually widening range of available supplies are unlikely to allow them to be produced locally because of cost and the rapid rate of obsolescence. Other items, such as potassium fertilisers, and petrol, oil and lubricants, must be imported in their raw state even though they undergo beneficiation and some industrial processing after import. Items in the import category such as tractors and other self-powered machinery, have, in our own experience within the Sabi-Limpopo Authority, been subjected to price rises of as much as 20% over the past three years, and not all of this is due to higher import prices. The restricted currency available to importers has, of necessity I believe, forced them to adopt higher mark-ups, but this has had an effect on development costs. For instance, the Sabi-Limpopo Authority's Mkwase wheat scheme was developed on Stage I at an approximate cost of £175 per acre, and this included about £20 per acre for a power line. Subsequent sections of the same scheme have cost between £185 and £190 per acre, largely because of the additional cost of items such as machinery and the services performed by imported machinery in the way of bush clearing, etc. My examination of the position on input costs of manufactured items (and the R.N.F.U., I know, will confirm this) suggests that these appear to be higher than they need to be, and that this excess cost level is caused in large measure by inflated import costs under our present difficulties and the small scale of the market, with consequent higher costs where items are manufactured locally.

Agriculture as a Supplier

I would like now to consider the possibility of the role of agriculture as a supplier of raw materials to industry. Here it is convenient to examine both the home market and the export market. In the home market we have items such as sugar, maize and wheat for milling and the manufacture of stockfeeds; groundnuts, sunflowers and other oilseeds for expressing and conversion into soaps and foodstuffs; rice; cotton for spinning and weaving; and tobacco for grading, packing and manufacture into cigarettes. Tea is processed for the consumer market; timber is converted into building and packing materials, paper and board. These industries, now based locally and producing for both the local and export markets, rely almost entirely on the local crops. Most of these crops are presently being produced at levels well in excess of both industry's capacity to absorb and the local market's requirements. Significant quantities are, therefore, exported in their raw state, i.e. tobacco in leaf form, cotton as lint, maize as grain, beef as beef-cuts, and so forth. Other industries not yet in the export market in a major way include food canning, rice, vegetables and fruit. There may very well be a case for further conversions of these raw exports. For instance, it has been calculated that deltapine cotton grown in the lowveld at a producer price of 8d. per lb., with a spinning and weaving mill located in the lowveld, could be offered on world markets in the form of grey cloth at prices which would be very competitive with Pakistani and Far Eastern textiles.

Agriculture as an Exporter

I realise that most of the importing countries have tariff structures which are designed to encourage the free import of raw agricultural materials and discourage the importation of processed products such as cotton textiles, polished rice, stockfeeds, soaps, etc. I realise also that, if we were to embark on the industrial processing of agricultural products here for subsequent export as finished products, then the industrialist would need to receive his raw materials at the cheapest possible price. For instance, my Authority is presently examining the possibility of food canning in the lowveld, based on raw materials at prices lower than those currently required by suppliers to similar factories elsewhere in the country. We believe that agriculturally this lower price could be profitable, given a sufficiently large scale of production. I believe that the highveld could also participate in similar types of ventures.

But here we come to the rub of the matter. Quite obviously, if agriculture is going to be one of the leaders in economic growth by virtue of its export earning capacity, it must be able to meet export prices. In passing, I would observe that in my view only a very few selected manufacturing industries, given the present size of the economy and the state of marketing, could hope to compete in world markets, or even in the South African market, and therefore I rule out manufacturing as a leading growth-point for the economy, if it is to be based on exports. I do not rule out economic growth based on manufacturing for the local market.

But back to the main theme. To be able to meet competitive export prices for either the raw materials, or processed or semi-processed agricultural products, it is necessary for the local farming industry to increase its productivity and lower its production costs through paying attention to matters such as labour utilisation, the optimum use of fertiliser, the economic optimum scale of production rather than the optimum technical scale of production, the use of better seeds and varieties, and the widespread adoption of sophisticated management techniques. These are not all. One of the most important factors in the total cost of agricultural products is the cost of the manufactured inputs, such as fertiliser, fuels and equipment. We calculate from our own estates that 58% of our input costs are all products drawn from secondary industry, and it does not take a magician to work out the benefits which my estates and the farming industry could derive from lowered input costs. Here I revert to an earlier point—that many of our input costs are inflated either by present economic circumstances, by the small scale of the market, or by protective measures of either a direct nature such as tariffs, or an indirect nature such as import licensing and currency restrictions. All of these measures I believe need to be examined and all the industries drawing protection under them and selling in a captive local consumer market need to be put under the microscope with a view simply to reducing the farmers' input costs.

Again we know from our own experience that the farmer can do only so much towards increasing productivity; that the marketing boards can do only so much towards increasing productivity or towards maximising returns; and that there is a limit to the extent to which local industry can reduce its prices.

On these points I would like to conclude by saying that, since it seems that economic growth will be led in large measure by agricultural exports, there may very well be a case for removing the protection which secondary industry obtains. This should give agriculture access to the cheapest possible imported

inputs. In other words, if we are going to be basically an agricultural exporting country, we must gear ourselves properly to that end.

Population and Employment

I want to look briefly at labour and the opportunities which should exist for employment in the future. The African population is growing at approximately 3.4% per annum. Some 50% of the population are aged 16 years or less. It is a very young population. Life expectancy is being raised continually, so that wastage from the working population is low. At the same time these factors are producing a minimum of 40,000 new work-seekers a year. In the European farming sector, the average European managed 129 acres in 1956, and 171 acres in 1965. African labour in 1956 was employed at the rate of one man to 5.3 acres; in 1965 one to 6.3 acres; by 1980, with increasing mechanisation, it is quite probable that there will be one African labourer to 7.5—8 acres. This assumes a low but steady rise in productivity, matched with a small amount of additional capital in the way of improved power and harvesting machinery, but over the next twelve years I do not believe that the climate of technological sophistication will change very much. At this rate we could expect that approximately 250,000 to 300,000 labourers will be required by agriculture, and this represents an expansion of only 60,000 over the 1968 level. Industry employs 78,000 Africans, which is about 25% more than in 1954, during which period the gross value of industrial output has gone up approximately two and a half times. Clearly industry is capital-intensive, whereas agriculture is labour-intensive. Clearly, therefore, we cannot look to manufacturing to supply any significant portion of the additional jobs that will be needed; nor indeed can non-subsistence agriculture, although its contribution will obviously be greater.

It seems, therefore, that the expansion of the population will result in considerable amounts of unemployment or under-employment, much of which will be aggravated by the continuing growth of the population in the tribal areas. It is estimated that the tribal areas contain approximately 2½ million people, with a gross value of output of about £25 million, or roughly £10 per head, per annum, compared with a national figure over the whole economy of £82 per annum. This low purchasing power of the tribal areas matched against an increasing population in those areas will necessitate continued agricultural expansion—firstly to feed them, and secondly to maintain that average level.

Tribal Agriculture as a Market

A market with this type of purchasing power is not in my view a significant market for secondary industry. Nor do I believe these areas to be attractive as places in which to locate industry. What sort of industry could be located in these tribal areas? Mining is one possibility, but the limited demand in these areas could hardly support consumer goods industries. The market is too unsophisticated also for most agricultural supply industries. The processing of agricultural or mineral production is more likely, but agricultural output and therefore productivity would need to be stepped up considerably to supply such factories.

The conclusion I reach for the tribal areas is that, although they might be useful pools of labour for an industrialist, he could not expect them to be significant markets or suppliers of produce for any industry located in the tribal areas. In fact, I do not believe the tribal areas will be of any real interest to any industrialist until economic growth and income per head have been

increased by the development of their agricultural potential. Only then could we expect industry to move into these areas. During the interim period they will be supplied from established areas on the Bulawayo/Salisbury axis.

Conclusion

To conclude this brief survey, let me sum up by saying:

1. the incipient growth in population and job requirements is greater than the apparent capacity of agriculture, mining or manufacturing to absorb them, and indeed beyond the capacity of those industries to generate employment through tertiary services;
2. the tribal areas are unlikely to prove attractive to industrialists until agriculture has made such greater progress;
3. in relation to the internal market, manufacturing appears to be a future growth-point;
4. in relation to the export market, agriculture and mining will provide the foreign exchange and sustain the internal activity on which manufacturers will work;
5. as an export-oriented agricultural economy, farmers must of necessity meet world prices;
6. major agricultural expansion has been shown in an earlier section to have only a small impact on world trade. (See Appendix II.)
7. farmers must be given every opportunity to lower their production costs in the face of what appear to be persistent, long-term downward trends in world prices for their raw and processed products;
8. although local manufacturing industry has a role to play as a supplier of agricultural inputs, it may be desirable to examine the protection given to every sector with a view to minimising costs and giving the farmer every chance of succeeding in the export market;
9. you will understand from the thoughts I have put to you this afternoon that I am not convinced that it is a desirable policy to set up industries for the supply of agriculture's requisites if those industries need any protection in the form of subsidies, currency controls, import restrictions or tariffs of any kind.

APPENDIX I. INDUSTRIAL ORIGIN OF THE GROSS DOMESTIC PRODUCT

<i>Item</i>				1966*	1967*	1968†
<i>Agriculture:</i>				£ million	£ million	£ million
African	..	..	..	22.6	26.8	24.7
European	..	..	..	44.5	44.0	34.7
Total				67.0	70.8	59.4
Mining and quarrying	..	..	..	22.1	22.7	22.2
Manufacturing	..	..	..	60.8	69.5	79.0
Construction	..	..	..	15.8	18.8	23.1
Electricity and water services	..	..	..	15.7	16.4	17.4
Wholesale and retail trade	..	..	..	42.9	47.9	52.2
Banking, insurance and finance	..	..	..	6.1	7.3	7.9
Real estate	..	..	..	6.5	7.1	7.9
Ownership of dwellings	..	..	..	10.2	11.2	12.5
Transport and communications	..	..	..	28.2	27.3	32.4
<i>Services:</i>						
Public administration and defence	..	..	..	18.5	19.3	21.0
Education	..	..	..	12.4	12.7	13.5
Health	..	..	..	4.6	4.8	5.4
Domestic services	..	..	..	10.2	10.7	11.4
African rural household services	..	..	..	4.6	5.0	5.2
Other	..	..	..	16.8	18.1	19.6
Gross domestic product				342.7	369.6	389.9

*Revised

†Provisional.

APPENDIX II. TOTAL WORLD EXPORTS OF AGRICULTURAL PRODUCE

<i>Crop</i>	<i>Year</i>	<i>Rhodesia</i>	<i>World Total</i>	<i>% Rhodesia</i>	<i>% Rhodesia if 5-fold increase in exports (b)</i>
METRIC TONS					
Cotton	1966	68,000 (a)	3,930,000	1.70	8.1
Beef	1965	16,000	1,450,000	1.10	5.4
Maize	1965	300,000 (say)	25,340,000	1.20	5.6
Sugar	1965	250,000	19,420,000	1.30	6.1
Groundnuts	1965	169	1,395,000	0.001	0.006
Tobacco	1965	123,000	963,000	12.70	42.26
Tea	1965	500	640,000	0.078	0.389
Coffee	1965	130	2,763,000	0.001	0.001

(a) 1969 estimate by S.A. "Financial Mail," taken as more realistic than 1966 figures.

(b) Disregarding any world growth in intervening period.

DISCUSSION OF PAPER FIVE

Mr. Hamlin asked *Mr. Mills* if he agreed that a great change in the orientation of African education in the rural areas was necessary. *Mr. Mills* agreed saying that you could not put blue-collar and white-collar people to work if there were no jobs for them. What was needed was a basic "grass roots" education, until such time as manufacturing generated sufficient jobs to be able to draw Africans from the rural areas. This was a very great problem because it was apparent that it was very difficult to turn a peasant into a modern commercial farmer using modern techniques. It was much easier to take him right out of his environment and train him as an industrial operative.

Mr. Wright asked if the answer to increased productivity in the tribal agricultural sector was the establishment of irrigable estate scheme so that each individual did not necessarily have to provide all his own implements and necessities for farming. *Mr. Wright* said he thought that such a system would have a much greater impact than trying to improve dry-land techniques in the tribal areas.

Mr. Mills said he thought that there was something in this attitude. But he thought that whatever agricultural system that was adopted the great problem was motivation. The Sabi-Limpopo Authority had discovered this in its Chisumbanje development scheme.

Mr. Stanbridge said he was surprised at *Mr. Mills'* gloomy view of the future. He said that the Sabi-Limpopo Authority in its planning had worked out that jobs could be provided for 500,000 people in the lowveld area. *Mr. Stanbridge* said that industrial development had enabled—or perhaps necessitated—the local manufacture of certain inputs for the agricultural sector. It had also made possible a degree of processing of agricultural products. *Mr. Stanbridge* asked in view of these developments whether one effect of industrialisation would be to shield the farmer from world primary product price fluctuations. He asked this because—as a rule—the more highly processed a product, the less subject it was to fluctuations. Secondly, *Mr. Stanbridge* referred to industrialised farming which he said usually meant lower production costs. It was a form of production characterised by very large scale, highly capitalised, highly self-sufficient techniques which in many cases gave the opportunity for vertical integration with processing industries.

Mr. Stanbridge asked whether the trend towards industrialised farming—apparent in the lowveld—would allow the industry to offset the higher costs and lower output prices by increased efficiency.

Mr. Mills said he thought that the further beneficiation of agricultural products might very well shield farmers from world price fluctuations, but what worried him was the fact that it was important to strike a balance between exporting groundnuts raw and exporting them in the form of soap and margarines, by virtue of tariff structures and other factors like transport costs. Like *Mr. Hedley*, *Mr. Mills* thought that the pragmatic approach was to take opportunities where they were found and in the form in which they were found. There was no point in insisting in selling margarine if you could sell groundnuts to better advantage. The point he was stressing was that exports were going to be led in agriculture—but agriculture in all its forms.

On industrialised farming, *Mr. Mills* said he believed that large-scale industrialised farming was more efficient than small-scale individual farming. He realised that this was in opposition to Government policy because Government believed that the more individual farmers on the land the better as this increased security and interest in the land. Large-scale operations allowed economies in the form of bulk-buying. It did have considerable advantages and he thought more of it would be found on the high veld.

Mr. Thomas said that under present conditions in Rhodesia with input costs as they were and with yields per acre at their current level, the average farmer could not compete in world markets. He agreed with *Mr. Mills* that agriculture should be export oriented and that the two ways of doing this were by reducing input costs (or keeping them static) and by increasing productivity per unit. This was a fine long-term approach but the need was for immediate short-term improvements because

farmers were facing very severe financial problems that could well force numbers of them off the land in the next few seasons. He asked what short-term solutions Mr. Mills could offer.

Mr. Mills said he had no magic answer. There was no doubt that the agricultural industry was suffering. Mr. Mills said the basic reason was the loss of access to markets and perhaps Rhodesia should gear itself to the recovery of world markets where the doctrine of comparative advantage would allow these markets to be exploited—for instance tobacco. Mr. Mills said he regretted that there did not seem to be a short-term answer.

Mr. John Staub asked about the long-term prospect for employment of labour in agriculture. Because land was a limiting factor so far as agricultural employment was concerned and because agriculture was decreasingly labour-intensive, he thought that the prospects for employment were greater than in agriculture.

Mr. Mills said he accepted Mr. Staub's point but as far ahead as anyone could see Rhodesia was simply not going to achieve the necessary industrial growth. Growth plans would have to be based on agriculture and mining which would be the growth points. Widespread industrial growth based on economies of scale was a long way ahead.

Mr. Rule said that Mr. Mills was in favour of free trade in industrial products where agricultural inputs were concerned. Mr. Mills also accepted, he said, that in a limited field itself agriculture should not be featherbedded. Mr. Rule asked whether Mr. Mills would agree that agricultural prices—for any form of domestic consumption—should be allowed to fluctuate freely between import and export parity, and that prices both for internal and external consumption should fall close to export parity itself. *Mr. Mills* said that the long-term objective should be the ability to sell in the domestic market at roughly world parity prices. He agreed with Mr. Rule's sentiments.

Mr. Dewhurst said that under normal circumstances he thought everyone would agree that if a firm was going to enjoy protection quality and price must be right. He asked whether Mr. Mills would accept a higher price—for firm's manufacturing agricultural inputs—over a 3 to 5 years period in order to give the firm time to establish itself. This, in view of the benefit of increased employment that would flow from making the agricultural input locally.

Mr. Mills replied that this was the infant industry concept. If one could be certain that perfectly natural market forces would operate after the 3 or 5 years period then it might be reasonable to accept Mr. Dewhurst's suggestion. But he stressed that the long-term objective was to minimise input costs in order that agriculture could compete in international markets.

In his summary, *Mr. Stanbridge* said that Mr. Mills held out only limited hope for the reduction of national under-employment over the next ten or fifteen years, though the point had been made that if the irrigation development schemes could be got under way at the rate originally envisaged, a good deal of this under-employment would fall away. He warned, however, that even when agricultural employment was provided the reluctance of indigenous labour to undertake farm work meant that in most cases about 50 per cent of the work force had to be foreign labour.



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